Centralization
&
Decentralization

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What is Centralization & Decentralization

- **Centralized organization:** the authority to make important decisions is retained by top level managers

- **Decentralized organization:** the authority to make important decisions is delegated to managers at all levels in the hierarchy

Forces for (de)centralisation

Delegation of Authority

Reasons to Decentralize Authority:-

- It encourages the development of professional managers.
- Managers are able to exercise more autonomy but it can lead to a competitive climate.

Delegation of Authority cont..

Reasons to Centralize Authority:-

1. When the managers are not skilled enough and would need further training which can be expensive.
2. When there are new administrative costs because new divisions need to be formed.
3. Decentralization can mean duplication of functions.

Arguments for Centralization

- Centralization can facilitate coordination.
- Centralization can help ensure that decisions are consistent with organizational objectives.
- Centralization can avoid duplication of activities by various subunits within the organization.
- By concentrating power and authority in one individual or a management team, centralization can give top-level managers the means to bring about needed major organizational changes.

Arguments for Decentralization

- Top management can become overburdened when decision-making authority is centralized.
- Motivational research favors decentralization.
- Decentralization permits greater flexibility—more rapid response to environmental changes.
- Decentralization can result in better decisions.
- Decentralization can increase control.

Limitations of Centralization

- Development of low level managers are hampered . Opportunity given to exercise initiative and judgment is negligible .
- It is a costly affair and delays decision making .
- It creates problems of effective communication
- No scope of specialization as a person may have to look into many things

Limitations of Decentralization

- It creates problems in coordination between different units of the organization.
- May result in higher administrative expenses as qualified managers a needed for different divisions
- Due to different policies and procedures of each unit in a decentralized organization inconsistencies may arise in organizational activities

Examples of Centralized organisations

- **Dictatorship**: Dictatorships are usually ruled by a single powerful figure, the easy-to-spot sign of a centralized organization. If you can stop the leader, you can destroy the entire group.

- **Military**: Traditionally, the military has been the classic example of top-down or hierarchical management. The General orders the Captain who orders the Lieutenant who orders the...

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- **Government**: Governments are classic top-down structures lead by the President or Prime Minister, followed by Senators or Ministers who each have a team below them. Right at the bottom are the voters who get to have their say with a single vote every couple of years.

- **Television**: TV shows are created by centralized organizations that decide what we watch and when we watch it. And, if think literally about it, one message is sent down the airwaves for us to watch at the other end.

Examples of Decentralized Organisations

- **Open Source Software**: There are two decentralized organization examples in the computing world. The first is Open Source Software. Think Linux. It's freely available, thousands of volunteers update it and nobody owns it.

- **Peer to Peer Software**: Peer to Peer software is uses bits of information contributed by many people. For example, Bit Torrent downloads a part of the overall file from numerous computers spread across the globe.

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- **Terrorist Cells**: Terrorist cells represent the best military decentralized organization example. And, this explains the difficulty the west has had in coming to terms with Al Qaeda, finding Osama Bin Laden and the war in Afghanistan. It's the centralized versus the decentralized.

- **The Internet**: This is the classic decentralized organization example of our time. It was deliberately created to overcome the limits of a centralized military command and the threat of missile attack. This decentralized structure is built upon the humble hyperlink that connects all the separate pages, websites and networks.

The Decentralization of Coca-Cola

- Coca-Cola decentralized its organisational structure by cutting half of the staff at its Atlanta headquarters and moving the regional chieftains closer to their local markets. In India, decision making has been moved further down to different areas of that diverse country.

Equating a Ideal Organisation

Balancing Centralization and Decentralization :

- Ideal balance entails:
  - Enabling middle and lower managers who are at the scene of the action to make important decisions
  - Allowing top managers to focus on long-term strategy making

Examples of Fusion Organisation

- **Wikipedia**: Comprised of thousands of volunteers, Wikipedia is based on a wiki or open platform for editing the encyclopedia entries. A skeleton staff of employees oversee the venture.
- **Facebook**: Whilst the organization provide the platform for listings, users are free to post what they like within the guidelines set out by the platform owners.

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- **Supermarkets**: The owners employee people to set up and stock the store. Users are free to wander and select the items of their choice.
- **Ebay**: Just like the supermarket, Ebay the company set up the infrastructure and users are free to list items, view items and bid for items.
- **Toyota**: Toyota employs over 300,000 people. And, they all belong to independent business units controlled by an overall corporation.